

1                                   **VIRGINIA TOBACCO INDEMNIFICATION**  
2                                   **AND COMMUNITY REVITALIZATION COMMISSION**

3                                   701 East Franklin Street, Suite 501  
4                                   Richmond, Virginia 23219

5  
6                                   **Full Commission Meeting**

7                                   Thursday, July 27, 2006  
8                                   10:00 a.m.

9  
10                                  Hotel Roanoke  
11                                  Roanoke, Virginia

12  
13                               **APPEARANCES:**

14                               The Honorable Charles R. Hawkins, Chairman

15                               The Honorable Terry G. Kilgore, Vice Chairman

16                               Mr. Thomas W. Arthur

17                               Mr. Stephen S. Banner

18                               The Honorable Robert Bloxom, Secretary of Agriculture

19                               Mr. Clarence D. Bryant, III

20                               The Honorable Kathy J. Byron

21                               Mr. Barnie K. Day

22                               The Honorable Allen W. Dudley

23                               Mr. Fred M. Fields

24                               Ms. Manju Ganeriwala

25                               The Honorable Patrick Gottschalk, Secretary of the Department of

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1 Commerce and Trade

2 Mr. Scott M. Harwood, Sr.

3 Mr. L. Jackson Hite

4 Mr. Jordan M. Jenkins, Jr.

5 The Honorable Joseph P. Johnson, Jr.

6 Mr. Buddy Mayhew

7 Mr. H. Ronnie Montgomery

8 The Honorable Harrison A. Moody

9 Ms. Connie G. Nyholm

10 The Honorable Edward Owens

11 The Honorable Phillip P. Puckett

12 The Honorable Frank M. Ruff

13 **APPEARANCES: (cont'd)**

14 Mr. John M. Stallard

15 Mr. James C. Thompson

16 The Honorable William C. Wampler, (via telephone)

17 Mr. Thomas E. West

18 The Honorable Thomas C. Wright, Jr.

19

20 **COMMISSION STAFF:**

21 Mr. Neal Noyes, Executive Director

22 Mr. Ned Stephenson, Director of Investments

23 Mr. Timothy Pfohl, Grants Program Administration Manager

24 Ms. Stephanie Wass, Director of Finance

25 Ms. Britt Nelson - Grants Coordinator, Southside Virginia

1 Ms. Sara Griffith - Grants Coordinator, Southwest Virginia

2

3 OFFICE OF THE ATTORNEY GENERAL:

4 Mr. Francis N. Ferguson, Deputy Attorney General,

5 Counsel for the Commission

6 Ms. Stephanie Hamlett, Senior Assistant Attorney General,

7 Bond Counsel

8

9 SENATOR HAWKINS: Good morning, everyone.

10 It's ten o'clock, and let's get started. I was notified that most of the people  
11 that are up for reappointment received a letter from the Governor confirming  
12 that. If I'm not mistaken, Mr. Hite, Mr. Thompson and Mr. Mayhew all  
13 received a letter. Is that correct? We can assume you've all been  
14 reappointed. I want to take a minute to thank the Governor, because I think  
15 it's very important that we maintain the continuity of this Commission, and  
16 I'm very pleased to see that take place.

17 Having said that, today I have two things I'd like to talk about.  
18 Ned was serving as our interim Executive Director until recently, and I want  
19 to thank you for the work you did. It was a challenge stepping into a void  
20 the way you did, and also a challenge to try to make sure that we stay on  
21 track, which I think you handled extremely well, and I think your service to  
22 this Commission and the Commonwealth is exemplary. I thank you for that,  
23 and I look forward to working with you in your position that you've handled  
24 so well in the past. Thank you, sir.

25 Neal Noyes is no stranger to this Commission, and now he is

1 working with us in the capacity of Executive Director. He understands the  
2 charge of this Commission and has spent a great deal of time in the past in  
3 various positions from the federal side. I'm looking forward to working with  
4 Neal and the rest of the Staff trying to retrain and re-focus the direction of  
5 this Commission. Thank you, very much.

6 MR. NOYES: I'd just like to say how kind and  
7 how delicate the Staff has been. Everybody on the Commission Staff has  
8 extended me every courtesy, and I appreciate that.

9 SENATOR HAWKINS: That's called the  
10 honeymoon.

11 All right, let's call the roll.

12 MR. NOYES: Mr. Arthur?

13 MR. ARTHUR: Present.

14 MR. NOYES: Mr. Banner?

15 MR. BANNER: Here.

16 MR. NOYES: Secretary Bloxom?

17 SECRETARY BLOXOM: Here.

18 MR. NOYES: Mr. Bryant?

19 MR. BRYANT: Here.

20 MR. NOYES: Delegate Byron?

21 DELEGATE BYRON: Here.

22 MR. NOYES: Mr. Day?

23 MR. DAY: Present.

24 MR. NOYES: Delegate Dudley?

25 DELEGATE DUDLEY: Here.

1 MR. NOYES: Mr. Fields?  
2 MR. FIELDS: Here.  
3 MR. NOYES: Secretary Gottschalk?  
4 SECRETARY GOTTSCHALK Here.  
5 MR. NOYES: Mr. Harwood?  
6 MR. HARWOOD: Here.  
7 MR. NOYES: Senator Hawkins?  
8 SENATOR HAWKINS: Here.  
9 MR. NOYES: Mr. Hite?  
10 MR. HITE: Here.  
11 MR. NOYES: Delegate Hogan?  
12 DELEGATE HOGAN: (No response.)  
13 MR. NOYES: Mr. Jenkins?  
14 MR. JENKINS: Here.  
15 MR. NOYES: Delegate Johnson?  
16 DELEGATE JOHNSON: Here.  
17 MR. NOYES: Delegate Kilgore?  
18 DELEGATE KILGORE: Here.  
19 MR. NOYES: Ms. Lane?  
20 MS. LANE: (No response.)  
21 MR. NOYES: Mr. Mayhew?  
22 MR. MAYHEW: Here.  
23 MR. NOYES: Mr. Montgomery?  
24 MR. MONTGOMERY: Here.  
25 MR. NOYES: Mr. Moody?

1 MR. MOODY: Here.

2 MR. NOYES: Ms. Nyholm?

3 MS. NYHOLM: Here.

4 MR. NOYES: Mr. Owens?

5 MR. OWENS: Here.

6 MR. NOYES: Senator Puckett?

7 SENATOR PUCKETT: Here.

8 MR. NOYES: Senator Ruff?

9 SENATOR RUFF: Here.

10 MR. NOYES: Mr. Stallard?

11 MR. STALLARD: Here.

12 MR. NOYES: Mr. Stith?

13 MR. STITH: (No response.)

14 MR. NOYES: Mr. Thompson?

15 MR. THOMPSON: Here.

16 MR. NOYES: We have a representative for

17 Secretary Wagner, Deputy Secretary Manju Ganeriwala?

18 DEPUTY SECRETARY GANERIWALA: Here.

19 MR. NOYES: Senator Wampler?

20 SENATOR WAMPLER: (By phone.) I'm here.

21 MR. NOYES: Mr. West?

22 MR. WEST: Here.

23 MR. NOYES: Delegate Wright?

24 DELEGATE WRIGHT: Here.

25 MR. NOYES: We have a quorum, Mr. Chairman.

1                   SENATOR HAWKINS: Thank you, and welcome.  
2     The only person that we have not recognized that we probably need to is  
3     Robert Bloxom, Secretary of Agriculture. Thank you for being here, and  
4     look forward to working with you.

5                   Secretary Bloxom, would you like to say anything?

6                   SECRETARY BLOXOM: Thank you. I look  
7     forward to working with you all, and obviously, we have a lot to do.

8                   SENATOR HAWKINS: Thank you. I just want to  
9     take a couple of minutes to have Frank give us a status report on the  
10    litigation that we talked about at the last meeting, as you recall.

11                  MR. FERGUSON: I wanted to give you a status  
12    report on the litigation we talked about at the last meeting. As you recall,  
13    when the April payments from the tobacco companies, referred to as the  
14    Master Settlement Agreement, some of the companies withheld a portion of  
15    their payment, claiming that they would do an offset for overpayment in  
16    2003. That claim was based upon their assertion that they were doing what's  
17    known as the NPM, non-participating manufacturer adjustment, for that  
18    year. The amount withheld was about \$16,000,000 total, which is an impact  
19    on this Commission's budget.

20                  Sometime shortly thereafter, our office filed an action in the  
21    Richmond Circuit Court, which is the MSA court for Virginia, seeking a  
22    declaration that Virginia enforce the escrow statute, a statute which requires  
23    the non-participating manufacturers to make annual payments into the  
24    escrow account for cigarettes sold in the Commonwealth. If it is determined  
25    that we have a claim, and it's enforced, which we believe we have, we would

1 then be immune from that NPM adjust, and we would be due the money that  
2 was withheld.

3           Following that, the tobacco companies responded with a motion  
4 to compel arbitration on that issue, and this is, under the terms of the MSA,  
5 there are some things which are subject to arbitration, rather than court  
6 action. We have opposed that motion and believe that is not what the Master  
7 Settlement Agreement contemplates, and that motion will be heard tomorrow  
8 in the Richmond Circuit Court. And, depending on the outcome of that  
9 discussion, there will be an appeal of that decision or go on trial on the  
10 enforcement issue the Commonwealth has brought forward, and there'll be  
11 arbitration on the enforcement issue.

12           A number of other states are going through the same process.  
13 This motion to compel arbitration has been ruled on in about six or seven  
14 states in favor of the tobacco companies, and one state in favor of the state. I  
15 can't tell you why it's been so lopsided in favor of the tobacco companies,  
16 but it's pretty clear to me it's not subject to arbitration. Obviously, others  
17 have a different view. In any event, we'll know some time after tomorrow  
18 whether or not we'll have an arbitration on that question or whether or not  
19 we'll have a trial sometime later this year or early next year on the  
20 enforcement issue. Because this issue has come up year after year, this  
21 happens to be the first time it's happened, potentially, we'll have the same  
22 dispute over the NPM adjustment each year going into the future. Again,  
23 we're confident this will be enforced, and we should be given safe harbor  
24 against this offset, and no one wants to have to slug it out each year, and it's  
25 costly and time consuming and everything else.



1                   Our efforts are ongoing between the Association of Attorney  
2   Generals and the tobacco manufacturers to try to reach some modification to  
3   the MSA that would eliminate this problem in future years. That process has  
4   really just begun, so I can't give you a prognosis how it will turn out.

5                   SENATOR HAWKINS: What's the worst case  
6   scenario?

7                   MR. FERGUSON: The worst case scenario is by  
8   whatever means some adjudicatory body, an arbitration panel or court,  
9   determines it's not diligently enforced and are subject to the NPM  
10   adjustment. I guess the worst case scenario every other state does diligently  
11   enforce, so we're tied to the adjustment, which would mean they'd take  
12   virtually all the MSA payment.

13                  SENATOR HAWKINS: Is that all?

14                  MR. FERGUSON: That's all. For each year, one  
15   at a time. It is theoretically possible, practically no more than possible.

16                  SENATOR HAWKINS: Thank you.

17                  MR. DAY: Mr. Chairman.

18                  SENATOR HAWKINS: Mr. Day.

19                  MR. DAY: Frank, on the several cases that have  
20   gone to arbitration, what's the outcome of the arbitration?

21                  MR. FERGUSON: None of them have gone yet,  
22   so far all we have is seven decisions, or maybe eight, where the court has  
23   ruled it is subject to arbitration. My guess is that many, if not all those  
24   decisions will be appealed before they actually engage in arbitration panels.  
25   If it is subject to arbitration under the terms of the Master Settlement

1 Agreement, you operate under the Rules of the Federal Arbitration Act.  
2 Three retired federal judges make up the arbitration panel, and, again, it's a  
3 state-by-state decision. Although, the tobacco companies want not only  
4 arbitration but they want one national panel to hear all the arbitrations. I  
5 can't find anything in the MSA that supports that, but that's the process.

6 One of the reasons we don't want arbitration is because it takes  
7 longer. The other as a practical concern, I think all the states have the  
8 arbitration going into the arbitration proceedings there's sort of a  
9 presumption that both sides have given up something. Our view is that we  
10 shouldn't have to give up anything because it should be enforced, and  
11 therefore we have absolute immunity against that adjustment.

12 SENATOR HAWKINS: The securitization money,  
13 the money that is securitized is not part of any of this? Is the money that is  
14 securitized still protected?

15 MR. FERGUSON: The only impact on the  
16 securitization issue is if we lose our income stream and there's a default on  
17 the bonds. But again, I think that's highly unlikely, and this was all made  
18 known to the bonding agency, or the rating agency, at the time of  
19 securitization. I think that's an unlikely possibility of occurring at this time.  
20 At this point, we haven't lost a penny. It's being held in a disputed account,  
21 but we don't expect to lose.

22 SENATOR HAWKINS: Some of us like to worry.  
23 Thank you, sir. Any questions of Counsel?

24 All right. Is there a motion to approve the Minutes? Is there a  
25 second? There is a motion made and seconded to approve the Minutes. All

1 in favor say aye? (Ayes.) Opposed? (No response.)

2 Next up is Ned.

3 MR. STEPHENSON: As was mentioned, we have  
4 a guest speaker before you today in the person of Shannon Blevins.  
5 Shannon works for the Department of Business Assistance, and we've asked  
6 her to make a brief report to you today, because Shannon is serving as a  
7 project manager for a significant project that you are involved in with many  
8 other state agencies, that being a software development company which is  
9 located in Lebanon, Virginia, in Russell County.

10 This project is significant because they have promised to bring  
11 to Russell County in excess of 600 software development jobs, with  
12 compensation at more than twice that of the average for the area. The eyes  
13 of the state are really upon Lebanon, Virginia, and this particular project.

14 I thought it would be of interest to you to hear from Shannon.  
15 Shannon has been steering a group of about 26 people, including bankers,  
16 educators, developers, planners, local officials, as all of them bring resources  
17 together to make this project successful. She's done such a good job of that  
18 and it's of such interest to so many people I thought you would like to hear  
19 about that. Please welcome today Shannon Blevins.

20 SENATOR HAWKINS: Shannon, welcome, we  
21 look forward to hearing from you.

22 MS. BLEVINS: Thank you, Ned. Mr. Chairman  
23 and members of the Commission, thank you for the opportunity to speak  
24 with you today, thank you for that opportunity.

25 These projects are extremely important, as Ned mentioned, not

1 only to the region of Southwest Virginia but to the state as a whole. The  
2 reason I'm here to speak to you today is that in January the Office of  
3 Commerce and Trade and the Department of Business Assistance took a role  
4 in coordinating the leading effort to make these two projects successful.  
5 There are quite a few risk factors with this project, but also very strong  
6 realities of great opportunities for these projects as well.

7 I want to give you an overview with the background of two  
8 companies that have been involved. CGI announced in October, and they  
9 are among the top 50 largest IT companies in the world, a 25,000-employee  
10 company worldwide, they announced in October 300 jobs in the Town of  
11 Lebanon. Immediately after that we started recruiting with a regional job  
12 fair, and they hired in February 17 employees and started operating an  
13 incubator in Washington County in Abingdon. When the facility is ready for  
14 them to move into, they will move into the facility in mid-March. They're  
15 now up to 55 employees and going to 72 in August.

16 If you look at the staffing plan, you can see that with 72 people  
17 in August they're already ahead of their hiring goal. They probably could  
18 move faster if they could hire those people. They're working to develop the  
19 critical need people. CGI is hiring in Lebanon and continuously hiring up to  
20 72 in August. They are looking for software programmers, 50 percent of the  
21 300 will be programmers, and another 50 percent will be system testers.  
22 That's 300 jobs in Russell County ultimately.

23 Then we have Northrup-Grumman coming in a week after CGI,  
24 and Northrup-Grumman announced 435 IT-related jobs also to be located in  
25 the Town of Lebanon. In the fall of this year they will break ground for a

1 permanent facility. In the fall of next year, they will start to hire. Their job  
2 is going to overlap a little bit of what's CGI's job responsibilities. For the  
3 most part these will be IT type jobs.

4 This is a major initiative that needs to be undertaken, and that's  
5 with workforce development trying to locate 750 IT personnel in one region.  
6 That's been a significant challenge. That entails workforce development to  
7 create this workforce.

8 Another factor is recruiting personnel from outside the region,  
9 but the big thing is to create and recruit people into IT-related programs  
10 within our state. We have to make sure that we are prepared for this new  
11 economy that Southwest Virginia is looking at and make sure that we have  
12 the infrastructure in place to make these two projects successful.

13 Then, finally, communications related to the project.  
14 Communications within the Southwest region of Virginia, but also outside of  
15 the region, to let people know there are great job opportunities now available  
16 that are being brought to that area.

17 Ned also mentioned there are 26 or so individuals that are  
18 trying to put together a package to make this happen. This is headed by  
19 Secretary Patrick Gottschalk, who is helping to direct this effort and work as  
20 a team in trying to achieve and accomplish what our goal is.

21 I want to go through quickly some of the initiatives that our  
22 teams are undertaking. The Tobacco Commission is playing a vital role in  
23 some of these initiatives. The first is workforce development group. This  
24 group is made up of different factions from the education system, and you  
25 can see them here on the screen. This is August, Northrup-Grumman,

1 they're over a year away from hiring, and they haven't been engaged in this  
2 team yet, but they will be, come this fall. You can see the communications  
3 between colleges. This team, or the major initiative that we're working on,  
4 and this involves recruitment and development, we want to make sure that  
5 the current programs they are providing are in line with what CGI needs.

6 The most significant thing this team has done is develop a Fast  
7 Track program. That program allows people that have a two-year degree or  
8 a four-year degree to go through a 34-week training program and walk out  
9 with what's necessary to have a job with CGI. They'll have the credentials  
10 and the training. Along with that, it's important that we identify those  
11 individuals who have an aptitude to be able to do that. The 34-week  
12 program is pretty intense, and we want to make sure that these individuals  
13 are up for that.

14 The scholarship opportunities that the Education Committee of  
15 the Tobacco Commission has put in place, we thank them for taking a look at  
16 and providing scholarships for our August class. This is a pilot group, and  
17 it's going to be extremely important that we deal with this so it will be a  
18 successful group, as we try to recruit others into the program.

19 Southwest Virginia Community College is taking a lead in  
20 offering the pilot group in August, and the Highlands Community College is  
21 going to offer those subjects in this program. Then you'll have a  
22 collaborative effort from the community colleges trying to make this happen.  
23 That's a key component of this project. Not only do we provide the  
24 residents an opportunity to get themselves ready for these kinds of job  
25 opportunities, but that we reach out and bring new folks into these

1 opportunities to compete as well. This is a very important opportunity for  
2 all of us.

3 We've also conducted faculty training, fifteen teaching  
4 professors who attended this training. The IT companies are also offering  
5 help with this. We also want to introduce students to IT-related jobs as early  
6 as middle school in the public school system.

7 We also have a communication team, and this team is made up  
8 of professionals in marketing, PR, and have representatives from the  
9 Commission and individuals speaking about economic development within  
10 the region. This group has a major initiative, and one is a cornerstone. This  
11 is a program that this Commission has had an integral part in and has  
12 certainly contributed to the success of this program. This is called Return to  
13 Your Roots through the special need initiative. This group has identified  
14 individuals who have left the region and gotten their education and left for  
15 jobs in other places and have not returned. Those individuals will find that  
16 the economy that they left 15 or 20 years ago, found that it's still like it was,  
17 and nothing could be further from the truth. However, the Return to Your  
18 Roots program involves an outreaching, identifying people and  
19 communicating with them to show them that now things are changing, they  
20 can come back to the Southwest region, and there are opportunities for  
21 employment, and these possibilities for employment are realistic, and they  
22 can have that, plus the quality of life that they want in this area. They have  
23 been very instrumental in keeping this program going. I feel that's one of the  
24 cornerstones for what the region is doing, involving CGI and Northrup-  
25 Grumman. It's not only IT jobs, but there are other factors and other types of

1 industries that will be associated with this new economy.

2 Another thing, with the addition of CGI and Northrup-  
3 Grumman, is we will have a presence on the web. So we've been working  
4 with various groups in Virginia who are allies to develop an online network  
5 and web sites that will incorporate CGI and Northrup-Grumman to the point  
6 where folks will be able to use all the information on the web site in their  
7 relocation decision. I encourage you in your free time, if you have any, to go  
8 online to the online network and check that out.

9 There are a few other issues related to the communications. In  
10 Southwest we have a period of time, and we've had an identity crisis, if you  
11 can call it that. One of the things we've heard from the CGI folks, in talking  
12 about encouraging people to relocate to Southwest Virginia, the first  
13 question was, where in West Virginia. So Southwest Virginia is not specific  
14 as a region, so what we're working on and trying to do is try to identify the  
15 southwest region that's useful in identifying this geographical issue.

16 Then finally we're looking for identify, I'd call it. An outreach,  
17 like the Bristol Motor Speedway, trying to get some exposure, because  
18 thousands of people know about that, as well as other types of publications,  
19 so we can get the story out about the things that are happening in the region  
20 and the new job opportunities that are coming to the area.

21 Then finally, a group will make a community planner, and  
22 economic developers will be involved, and any areas that we feel we can  
23 help bring 750 new jobs to the area certainly will have an impact on our  
24 economy and our area. Some of the initiatives that this group has developed  
25 would be what's called an action planner. This could be utilized for other



1 economic development initiatives, the regional action planner, and work on  
2 these plans through the implementation stage.

3           There are certain things that we have to do. We have heard, but  
4 we know we have hotels, and we have restaurants, and we have community  
5 colleges and these things. At CGI we've heard the word Starbucks, you have  
6 to be able to have that sort of thing. People need that to perform, apparently.  
7 So if you do that, you also make the tourist business to be viable. We have  
8 these things as a target to develop the communities in order to attract people,  
9 to identify, as I said, hotels and restaurants and coffee shops. So this goes  
10 hand-in-hand and offers opportunities in all areas. Maybe the IT people  
11 need Starbucks.

12           Finally, housing is always a very popular topic. I know there  
13 are housing developments in Russell County, and Washington County has  
14 several housing developments. There certainly will be more as the region  
15 grows and prospers. That's an activity that will help create the infrastructure  
16 that's needed for these two projects. All that goes hand-in-hand.

17           That's just an overview of three teams that I coordinated. The  
18 last project team, each company has their own small advisory board that  
19 meets on a monthly basis to make sure that if there are any problems with  
20 their individual project, that those problems are identified to some local or  
21 regional folks, and that these concerns are addressed.

22           That in a nutshell is an overview as to what's happening. I'll be  
23 happy to answer any questions I can.

24                       DELEGATE DUDLEY: Mr. Chairman, I didn't  
25 recall you referencing the Virginia Employment Commission. Are they

1 involved?

2 MS. BLEVINS: Yes, they certainly are involved.  
3 The jobs CGI and Northrup-Grumman have are posted with the Virginia  
4 Employment Commission, and they also are involved with the workforce  
5 development. We have found that the people for these jobs as programmers  
6 are not actually going to the Virginia Employment Commission, but the jobs  
7 are posted on the VEC web site.

8 SENATOR HAWKINS: Thank you, ma'am.

9 Next on the Agenda, and I want to depart from the printed  
10 Agenda and have Mr. Bryant give us an update on the recommendations of  
11 the committee that he's working on. They met yesterday, and he's got a  
12 report ready for us today.

13 Mr. Bryant.

14 MR. BRYANT: I do. I want to give the  
15 Commission a report from the Bio-based Energy and Oversight Committee.  
16 Everyone should have gotten this sheet, the Virginia Tobacco Commission  
17 Special Project, 2006. This is what we had to accomplish.

18 If you look at this, Items/Activities, and we revised this list of  
19 items and activities in the budget that we approved yesterday. Number one  
20 is bio-energy generation. This unit or equipment will cost \$877,500 when  
21 you add in all this equipment that comes with the deal.

22 Number two is the bio-products, production of fortified wood  
23 pellets, \$252,500.

24 Number three is the development of high-tech plant growing  
25 media, \$70,000.

1                   If you look at your left at the bottom, two-thirds of the funding  
2 will come from securitized funds, which are restricted, and about a third will  
3 come from unsecuritized. That brings the total project cost to \$1,200,000. I  
4 feel this project is worthy, and I think this will be something the  
5 Commission will be proud of.

6                   Are there any questions?

7                   SENATOR HAWKINS: Thank you for your  
8 report, and you met yesterday afternoon. I think this is one of the major  
9 issues we have before us. If you look at some of the things we're trying to  
10 accomplish, this could dovetail very nicely into stabilizing the family farm.  
11 At some juncture there has to be some revenue source generated now to  
12 create wealth and opportunities on the farming side, and also leading to new  
13 development opportunities in our area.

14                  What amazes me is that in Brazil some 20 years ago they made  
15 a decision to become totally independent of outside sources of energy, and  
16 today they say they're 99 percent totally independent from outside sources.  
17 They invested in bio-diesel and other things and did something about it, and  
18 we can do it, too. We have the land, and it will create a value-added feature  
19 to our farms and new jobs in our area, as well as creating a new source of  
20 energy. I think it's one of the most important things we can do.

21                  Mr. Bryant, do you have a recommendation?

22                  MR. DAY: Mr. Chairman, if a patent comes out of  
23 this project, who will own it?

24                  SENATOR HAWKINS: I understand Virginia  
25 Tech is working with us on this, and there will be some sort of an agreement

1 with Virginia Tech. I'm not sure how that will be handled. Can you answer  
2 that, Mr. Bryant?

3 MR. BRYANT: I'll make a recommendation that  
4 you approve this, this is just the Oversight Committee.

5 SENATOR HAWKINS: You can make a  
6 recommendation and also a motion, if you'd like. We need to answer the  
7 question Mr. Day has put forth.

8 Frank, do you have an answer for that?

9 MR. FERGUSON: I asked the same question,  
10 actually, and I do not have an answer for you. My understanding is that the  
11 notion is that, as the issue comes up, there will be negotiations and  
12 discussions on how that will be resolved on sort of a step-by-step basis.

13 MR. DAY: If this is successful, will this go back  
14 into the farm community? Will Virginia farmers have to pay a licensing fee  
15 for any of this process?

16 SENATOR HAWKINS: I would think not, as far  
17 as the process itself and those participating, something like a small co-op in  
18 each community. I think that the primary concern of this is to make sure that  
19 there is access to this and access to the process.

20 MR. FERGUSON: I think that's correct.  
21 Certainly, there's no absolute requirement for, and again, that's subject to the  
22 terms and agreement and how that's resolved. As a general matter, when a  
23 state-owned educational institution creates an intellectual property, they own  
24 it. That's not to say it can't be subject to whatever agreements they enter into  
25 contractually to allow the transfer.

1 SENATOR HAWKINS: Mr. Day, does that answer  
2 your question?

3 MR. DAY: Yes.

4 DELEGATE KILGORE: Once we fund this  
5 project, as we go forward, will we lose this property?

6 MR. FERGUSON: I guess the answer to that is it  
7 would depend on the terms of the grant. There are not any rights to be lost at  
8 this point. Because the Commission provides a grant for work does not  
9 automatically give the Commission any content. The ownership results of  
10 the property unless that is determined in the grant instrument or negotiating  
11 some other contract.

12 MR. NOYES: This matter was raised during the  
13 meeting yesterday, and my understanding, based on what Virginia Tech told  
14 us, was that at the point that it was actually intellectual property, the  
15 Commission would have standing to participate in the negotiations. Until  
16 such time as the intellectual property actually exists, there is no way to say  
17 that you get X percentage or anything like that.

18 SENATOR HAWKINS: This is the first step on a  
19 very long road.

20 MR. BRYANT: Mr. Chairman, I'd like to make a  
21 motion to approve the work of the Oversight Committee, which met  
22 yesterday afternoon.

23 SENATOR HAWKINS: As presented in the  
24 handout?

25 MR. BRYANT: Yes, sir.

1                   SENATOR HAWKINS: It's been moved and  
2 seconded, any discussion of the motion? The motion before us is to accept  
3 the handout that has been presented from the Oversight Sub-committee  
4 dealing with the bio-diesel as well as other forms of energy. All in favor say  
5 aye? (Ayes.) Opposed? (No response.) Motion carries.

6                   Now, we'll get back to the Agenda. Steve Rosenthal will give  
7 us an indemnification update. How many of these things are in question?

8                   MR. ROSENTHAL: About 1200.

9                   Mr. Chairman and members of the Commission, just a brief  
10 report. As you know, the first round of Phase 1 tobacco indemnification  
11 payments were made in June, a total of over 12 1/2 million dollars. That  
12 round included about 42 1/2 thousand claims. Today we approved an  
13 additional 1500, totaling approximately \$193,000. These approvals or  
14 claims were originally submitted on time but required a change of ownership  
15 or additional documentation. There was the process of changing ownerships  
16 on approximately 800 claims this year. Since the original May 19 deadline  
17 for submission of verification forms, we have received close to 1200 late  
18 forms, those were postmarked after May 19th. Those claims total about  
19 \$208,500. At this time the Commission may want to consider extending the  
20 deadline two weeks from now, and we suggest August 11th. On your  
21 approval of that deadline, we will notify local farm service agencies and  
22 distribute a press release notifying claimants. We anticipate this would be  
23 the only extension necessary.

24                   SENATOR HAWKINS: You want to extend it two  
25 weeks until August 11th, which is normal process. Those that are new

1 members of the Commission, periodically we extend the deadline in order to  
2 get money to people that it is owed to.

3 Any discussion on the motion that is before us for a two-week  
4 extension on the deadline? It's been moved and seconded that the extension  
5 be granted. All in favor say aye? (Ayes.) Opposed? (No response.)

6 Thank you, Steve. I'm amazed how well you all handle this.  
7 I've had phone calls from farmers, and you all have the patience of Job.

8 MR. ROSENTHAL: The Department of  
9 Agriculture and Staff have been very supportive, and we appreciate it. For  
10 those of you that do get calls, that round of payments should go out  
11 sometime around early September.

12 SENATOR HAWKINS: Most of the phone calls I  
13 get from people I deal with are very complimentary how you all handle that.

14 MR. ROSENTHAL: Thank you, Mr. Chairman.

15 SENATOR HAWKINS: All right. Southside  
16 Economic Development, Tom Arthur.

17 MR. ARTHUR: Mr. Chairman and members of the  
18 Commission. On July 19th the Southside Economic Development  
19 Committee met in Halifax at Riverstone, and we reviewed the requests for  
20 grants. We had 25 submitted and received within the time frame that is  
21 required. There was a request for \$8,757,864. The Staff reviewed them all  
22 and found them to be within the limitations of each county's allocation and  
23 approved 18. The Committee unanimously approved those 18 for a sum  
24 total of \$3,808,214. Several of the requests were tabled, pending a decision  
25 by the Technology Committee and additional information to be provided to

1 the Executive Director. Several were rejected, and Pittsylvania County  
2 withdrew their proposal, to be resubmitted later on.

3 The 18 that were approved, we approved them as a block.  
4 I would request that the Commission accept this report as a block as a report  
5 of Southside, and move approval.

6 SENATOR HAWKINS: A motion is made, is there  
7 a second? It's been moved and seconded, the motion that we accept the  
8 report in a block on that recommendation. Any discussion? All those in  
9 favor say aye? (Ayes.) Opposed? (No response.) Motion is carried. Thank  
10 you, Tom.

11 Senator Ruff.

12 SENATOR RUFF: Thank you, Mr. Chairman.  
13 The Education Committee met on June 22nd and set September 1st as a  
14 deadline for the applications, and the Committee will meet October 13th to  
15 consider those applications.

16 We took two actions that need approval today. The Committee  
17 recommended approval of a grant of \$67,806 for Southwest Virginia  
18 Community College for the Fast Track Course for CGI and Northrup-  
19 Grumman. That money will be drawn from anticipated Southwest Virginia  
20 Community College funds that are expected to be awarded in October.

21 In addition, we made some adjustments on the rules of the  
22 Scholarship Program, and they're attached on the next page.

23 Mr. Chairman, I move you accept the report.

24 SENATOR HAWKINS: It's been moved and  
25 seconded that we accept in a block the two recommendations from the



1 Education Committee. Any discussion? All in favor say aye? (Ayes.)

2 Opposed? (No response.) Motion is carried.

3 Senator Puckett.

4 SENATOR PUCKETT: Mr. Chairman, the  
5 Southwest Economic Development Committee met this morning at 8:30 to  
6 consider the two items that were tabled at our meeting on April 24th.  
7 Economic Development grants, there were some additional requests made  
8 for some information and that was provided at the Committee meeting. The  
9 Committee recommended that the Russell County Industrial Development  
10 Authority Grant request be approved, \$475,000, for a buildout of the training  
11 facility. As you recall, it is drawn from restricted money, and it was  
12 contingent on the fact that we provide a plan for the operation of the center.  
13 The plan was submitted this morning and approved.

14 The second item we discussed was the Lee County Industrial  
15 Development Authority Patriot Center renovation for a company that was  
16 coming to provide some jobs, 135 or so jobs, and was verified this morning.  
17 It's also money from the restricted account, \$237,500 is the recommended  
18 amount from the Committee.

19 That's a motion, that that be approved in a block.

20 MR. BANNER: Second.

21 SENATOR HAWKINS: It's been moved and  
22 seconded the two recommendations in a block, any discussion? All those in  
23 favor say aye? (Ayes.) Opposed? (No response.) It's approved.

24 MR. THOMPSON: Mr. Chairman, I'd like the  
25 record to note that I abstained from that vote.

1                               SENATOR PUCKETT: Just as a comment, there  
2 was an extension also, and the Committee as a result of Thompson Litton  
3 Engineering being part of that project abstained.

4                               SENATOR HAWKINS: So noted. Let the record  
5 reflect that as well  
6                               Special Projects.

7                               DELEGATE DUDLEY: Mr. Chairman, on the  
8 27th of April the Special Projects Committee met in Abingdon, and one of  
9 the projects approved at that time that's listed in your packet, we anticipated  
10 would be approved for restricted, the use of restricted funds. It turns out,  
11 after bond counsel did further review, that the project did not meet that  
12 criteria. I'd like to make a motion that we approve those projects with the  
13 use of unrestricted funds instead of restricted funds that we'd planned on  
14 using, and as a result the remaining balance at this time that Special Projects  
15 would have, a remaining balance of 6.3 million in unrestricted funding and  
16 5.8 million in restricted funding. In effect, the balance in unrestricted  
17 funding would go down and the balance in restricted funding would go back  
18 up, as a result of not being able to use money from restricted funding.

19                               I'd so move to do that, Mr. Chairman.

20                               SENATOR HAWKINS: You heard the  
21 recommendation from the Committee. Is there a second to that? It's been  
22 moved and seconded, any discussion? Does everyone understand what we're  
23 doing with the restricted and unrestricted monies? All in favor say aye?  
24 (Ayes.) Opposed? (No response.)

25                               MR. MAYHEW: Mr. Chairman.

1 SENATOR HAWKINS: Mr. Buddy Mayhew.

2 MR. MAYHEW: Is there anyone that can make a  
3 simplified explanation of what category projects go through for restricted  
4 and unrestricted? You probably explained it before, but I failed to catch it.

5 SENATOR HAWKINS: I think bond counsel can  
6 do that, but I'd also advise you that it's my intent that when we have a retreat  
7 during the next meeting, we're going to go through all the rules and  
8 regulations dealing with this, so there's no question when it comes up. There  
9 are a lot of questions with what we're dealing with, and we'll go over all that  
10 at the next meeting.

11 MR. MAYHEW: All right.

12 SENATOR HAWKINS: Delegate Byron.

13 DELEGATE BYRON: Mr. Chairman, Delegate  
14 Hogan has asked the Commission Staff to identify locations for a Southside  
15 pilot program that will involve deploying last mile technology capable of  
16 supporting private sector wireless broadband service providers. In response  
17 to that, Staff has identified the towns of Lawrenceville, Altavista, Brookneal,  
18 Appomattox and Stuart for consideration in this pilot program. We've asked  
19 that Mid-Atlantic Broadband will make application for funds currently  
20 available in the Technology Committee budget, and the Commission will be  
21 asked to consider this matter at the October 26th meeting.

22 There will be a Technology Committee meeting before then.  
23 That's the report.

24 SENATOR HAWKINS: That's an action that  
25 needs to be taken. Thank you, ma'am. Do you want to do the Long-Range

1 Plan?

2 DELEGATE BYRON: I'd move our report as  
3 well. There isn't any action to be taken. The Long-Range Plan Committee  
4 did meet in Roanoke on June 29th, and we had quite a long discussion  
5 regarding the Long Range Plan. The Commission Chairman charged us to  
6 look at our endowments in relation to the Commission's enabling statute.  
7 The Committee finds that the existing MSA payment and securitization  
8 arrangement is appropriate in relation to the Commission's legislative  
9 charge, and offered no recommendation for change.

10 The Long-Range Plan reviewed the current plan adopted in  
11 February of 2003. The Staff provided revisions to the Mission and Vision  
12 preamble which we deemed appropriate and acceptable. We also reviewed  
13 the rationale, objectives and strategy, and in that discussion we asked the  
14 Staff to provide us some additional information, some that will come out of  
15 the Technology Committee and some from other sources, that would provide  
16 the Commission maximum flexibility to incorporate outcome measures so  
17 that the Commission can monitor overall progress. We asked they would  
18 provide this information to us no later than August 31st, so that we can meet  
19 again and have a recommendation to the full Commission at the next  
20 meeting.

21 SENATOR HAWKINS: Thank you. Hopefully,  
22 we will be dealing with that in our retreat next month.

23 All right. Before we get into the Executive Director's Report, if  
24 you'll look at the last page of the Agenda that was sent out in the blue book,  
25 we have a rather unique situation in this Commission. Although the

1 Governor appoints the Executive Director, we have the salary, and the  
2 recommendations have been made, and salary has been set, based upon the  
3 tradition of the Executive Directors throughout the state.

4 Is there a motion on the salary?

5 SENATOR PUCKETT: So move.

6 SENATOR HAWKINS: It's been moved and  
7 seconded, it's nothing out of the ordinary, but it's our job to set the salary of  
8 the Executive Director, although he's not appointed by us. I know it's a  
9 peculiar situation, it's one of those things we just do.

10 It's been moved and seconded, any discussion? All in favor say  
11 aye? (Ayes.) Opposed? (No response.)

12 All right, Neal, do you want to give us the Executive Director's  
13 report?

14 While he's going to the podium, let me discuss a couple of  
15 things on my mind. I've been looking at what we're doing, and I think, as a  
16 matter of maturity for the Commission itself, we're not charged with things  
17 that we need to be dealing with as we were in the past. It may be that the  
18 size of the Commission and the way the sub-committees are working and  
19 looking at recommendations from our localities, sometimes we kind of  
20 rubber stamp them, but I've looked at some of the recommendations people  
21 are sending in to us, and they leave a lot to be desired. Some of them are  
22 okay, but a lot of them are trying to find ways to spend our money with  
23 monies that they should be spending on their own, with their own tax  
24 receipts. I think we need to understand the great capability we have as a  
25 Commission, also the brain power and the talent. I don't think it's utilized

1 the way it should be. A lot of the Commission members come to the  
2 meetings and vote for someone else's recommendation with no input.

3               On the Long Range Plan, we need to get more focused on how  
4 we can handle certain projects and make sure that in the long run this  
5 Commission is set in place to do many years of good work, even after we  
6 have left. When we have the next meeting, I'm going to ask us to have a  
7 special time set aside, kind of a retreat, and casually, with no agenda before  
8 us, other than to sit down and have a frank discussion about how we focus  
9 this Commission's attention toward the future. We have to make sure that  
10 everything we're doing is actually what we're supposed to be doing, to get in  
11 place those things that we think are important and priority needs we should  
12 focus on. Also, to understand we need to avoid the temptation of making  
13 things so restricted by rules and regulations that we do not have the  
14 flexibility that we need. We need certain guidelines, and we also need  
15 flexibility to deal with problems as they come up that may be unique to the  
16 area.

17               Having said that, think about how you see this Commission.  
18 People come in and talk to us about things all the time, but we seem to be  
19 kind of stuck in a manner of doing things that I'm not too happy with. We  
20 need to re-focus and start using the talents around the table better than we  
21 are. I want recommendations and frank discussions and what you all think  
22 we need to do, and we'll do that at the next meeting. We'll do this casually,  
23 and sit down and talk to each other and make sure we're all on the same  
24 track. If we need to restructure the committees, then we need to do that. If  
25 we need to re-focus on other things, we need to do that. We've been given a

1 great deal of flexibility by the General Assembly to deal with these things in  
2 these areas, and we need to live up to that responsibility, and to do that  
3 requires all of us to be part of the discussion, rather than sit back and let  
4 someone else do things and vote on someone else's recommendations.

5 Having said that, Neal.

6 MR. NOYES: The retreat associated with our next  
7 meeting will be the 25th of October. A block of rooms have been reserved at  
8 Big Stone Gap for October 25th and 26th.

9 Meeting and Application Deadline Dates. The Special Projects  
10 Committee meeting that was scheduled for July 20th to consider possible  
11 revisions to guidelines will be rescheduled as soon as Senator Wampler  
12 provides guidance. Any policy changes will come before the Commission at  
13 the October 26th meeting. Staff anticipates that the Special Projects  
14 Committee will meet to decide investment recommendations for the full  
15 Commission meeting on January 9th.

16 Notice of the August 15th meeting of the Technology  
17 Committee has been posted. Mr. Deriso of Mid-Atlantic Broadband has  
18 been invited to discuss issues related to last-mile broadband deployment for  
19 Southside, including MBC member capabilities, alternative technologies,  
20 and a pilot program designed to support area service providers in five  
21 Southside communities. Staff anticipates that the Technology Committee  
22 will meet to consider an application from the MBC for the pilot program in  
23 advance of the full Commission meeting on October 26th.

24 The Executive Committee is tentatively scheduled to meet on  
25 October 5th. At this point there are no agenda items.

1                   The Education Committee meeting will be October 13th to  
2   decide investment recommendations for the full Commission meeting on  
3   October 26th. Senator Ruff pointed out the application deadline is  
4   September 1st.

5                   Southside Economic Development Committee will meet on  
6   October 25th to decide investment recommendations for the full  
7   Commission meeting on October 26th.

8                   The Agribusiness Committee will meet on December 7th to  
9   decide investment recommendations for the full Commission meeting on  
10   January 9th. The application deadline is November 1st.

11                  The next scheduled meeting of the Southwest Economic  
12   Development Committee is April 24th, 2007, and the application deadline is  
13   March 1st.

14                  During the Long-Range Planning Committee meeting on June  
15   29th, Senator Wampler requested information about institutional capacity to  
16   meet the requirements of employers for trained personnel. Chmura  
17   Econometrics has graciously supplied forecasts for both Southside and  
18   Southwest that look out ten years, and Staff will be pleased to provide copies  
19   upon request.

20                  A couple of upcoming Staff activities, Mr. Stephenson and I  
21   will be working together on two new projects. First, we want to explore  
22   possibilities of new financing relationships that may speed last mile  
23   broadband deployment, including access to New Market Tax Credits and the  
24   Rural Utilities Service broadband program, Department of Agriculture.  
25   Secondly, we want to explore alternative capital access programs that have



1 the potential to meet the needs of emerging technology businesses. Staff  
2 expects to provide a white paper for Commission review in advance of the  
3 January 9th full Commission meeting on both of these topics.

4 Thank you.

5 SENATOR HAWKINS: Any questions of the  
6 Executive Director?

7 That brings us down to the last item on the Agenda, Public  
8 Comment. Would anyone like to make a statement to the Commission?

9 MR. DAY: I think your idea of the Staff  
10 introspection is a good idea.

11 SENATOR HAWKINS: It's my fault, and I  
12 apologize for that. I think, when we look around the table, and what  
13 potential we have by using all of our Commission members, we're just not  
14 using all of what we have as far as opportunities before us. Rubber stamping  
15 some things is not good. We want to expand that and look at everything.

16 MS. WASS: One housekeeping item, I want to  
17 make sure that you sign your travel vouchers that are at your desk and  
18 submit them. If you're not seeking any reimbursement, put no mileage or no  
19 reimbursement, and we'll take care of it. If you were charged parking, just  
20 attach that receipt and put that on your travel, and we'll make sure you get  
21 reimbursed for that.

22 SENATOR HAWKINS: That's important, because  
23 I think some people have assumed it will be taken care of by the Staff.  
24 Thank you.

25 MR. NOYES: I just want to remind everyone,

1 lunch will be served in Ballroom B and is available at 11:30 instead of 1:00.

2 SENATOR HAWKINS: Tad, do you have any  
3 comments?

4 MR. DERISO: The sheet you have in your packet  
5 is part of our new advertising campaign. On Phase 2 the Commission  
6 graciously funded some funding for, we got some dark fiber from Atlanta,  
7 Georgia to Washington, D.C. as well as funding for electronics. One of the  
8 key things in the long-range plan of the Commission and one of our major  
9 goals for Southside has been to connect the regional backbone network, as  
10 well as the project in Southwest Virginia, to the global Internet. There are  
11 lots of ways to do that, but that sheet shows that our region has a very dense  
12 fiber optic connectivity throughout our industrial parks, and that all links in  
13 with this high speed network. I'll be providing a report later on to the  
14 Technology Committee, but the amount of interest that has been generated  
15 from this project, now that we're 99.9 percent complete, has been  
16 tremendous. So many people are waiting to get capacity from our region up  
17 to Northern Virginia and down to Atlanta for redundancy and connectivity.  
18 It is really neat to see everything put together and all this coming to fruition.  
19 There is a lot of interest in the private sector to utilize this network and get  
20 into communities and businesses.

21 SENATOR HAWKINS: Is that the idea behind it?

22 MR. DERISO: Yes.

23 SENATOR HAWKINS: When are you going to  
24 put the light to it?

25 MR. DERISO: Two of our three rings are lit right

1 now. September 19th is slated for our network dedication in Keysville at the  
2 Heartland Industrial Park. Governor Kaine will be there and Senator  
3 Hawkins and Delegate Hogan and many other dignitaries. We're going to  
4 have a demonstration of the network, it's one of our node sites at the  
5 industrial park. We'll have a very large tractor-trailer filled with electronics  
6 and equipment to show what the network can do from one of our networks.

7 SENATOR HAWKINS: I don't mean to put you  
8 on the spot, but is the concept of this being connected somewhere around  
9 Hillsville?

10 MR. DERISO: That's all on track. The funding  
11 that you provided the Citizens Telephone Cooperative, I believe the  
12 construction starts next month on those links to our network, as well as in  
13 Wytheville, and Jim Kelly and have been working on all those connections.

14 SENATOR HAWKINS: That will give us a single  
15 network all the way up on the 58 corridor?

16 MR. DERISO: That's correct, as much capacity as  
17 you ask for. A seamless network.

18 SENATOR HAWKINS: Any questions? Thank  
19 you very much.

20 Any other comments from the public dealing with anything that  
21 came before the Commission? All right.

22 Is there a motion to adjourn? It's so moved and seconded.  
23 We're adjourned.

24

25 PROCEEDINGS CONCLUDED.

## 1 CERTIFICATE OF THE COURT REPORTER

2  
3  
4 I, Medford W. Howard, Registered Professional  
5 Reporter and Notary Public for the State of Virginia at large, do hereby  
6 certify that I was the court reporter who took down and transcribed the  
7 proceedings of the **Virginia Tobacco Indemnification and Community**  
8 **Revitalization Commission Full Commission Meeting when held on**  
9 **Thursday, July 27, 2006 at 10:00 a.m. in the Hotel Roanoke, Roanoke,**  
10 **Virginia.**

11 I further certify this is a true and accurate transcript  
12 to the best of my ability to hear and understand the proceedings.

13 Given under my hand this day of August, 2006.  
14  
15  
16  
17  
18

19 \_\_\_\_\_  
20 Medford W. Howard

21 Registered Professional Reporter

22 Notary Public for the State of Virginia at Large  
23  
24

25 My Commission Expires: October 31, 2006.